

Minsur S.A. and Subsidiaries

Notes to the interim consolidated financial statements

For the period ended March 31, 2015 (unaudited)

1. Corporate Information

(a) Identification -

Minsur S.A. (hereinafter "the Company") was incorporated in Peru in October 1977. The activities of the Company are regulated by the Peruvian General Mining Law. The Company is a subsidiary of Inversiones Breca S.A. domiciled in Peru, which holds 99.99% of the Company's common shares. The Company's registered address is Las Begonias Street N°441, Office No.338, San Isidro, Lima, Peru.

(b) Business activity -

The main activity of the Company is the production and selling of metallic tin and gold. Metallic tin is obtained from the mineral exploited in the San Rafael Mine, located in the region of Puno. After the tin concentrate is obtained, it is subject to smelting and refinery processes in the Company's plant located in Pisco. The Company started its production activities at the Pucamarca mining unit (located in the region of Tacna), which contains reserves of gold and silver.

Through its subsidiary Minera Latinoamericana S.A.C., the Company maintains investments in Mineração Taboca S.A. and its subsidiary (which operate the tin mine and a smelting plant located in Brazil), in Inversiones Cordillera del Sur Ltda. and its subsidiaries (group mainly dedicated to the production and selling of cement in Chile) and in Minera Andes del Sur S.P.A. (located in Chile and engaged in mining exploration activities). Also, through Cumbres Andinas S.A., the Company has investments in Minera Sillustani S.A., Compañía Minera Barbastro S.A.C. and Marcobre S.A.C., companies of the mining sector which are at the exploration and evaluation of mineral resources and pre-feasibility (Marcobre).

2. Basis of preparation, presentation and changes in the accounting policies

2.1 Basis of preparation -

The interim consolidated financial statements of the Company and its subsidiaries (together, the Group) have been prepared in accordance with IAS 34 Interim Financial Reporting.

The interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's audited financial statements as of December 31, 2014.

2.2. Standards and accounting policies –

The accounting policies adopted in the preparation of the interim financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2014, except for income taxes in interim periods which are recognized using the tax rate that would be applicable to expected annual earnings.

2.2 Basis of consolidation -

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as of March 31, 2015 and December 31, 2014.

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Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee),
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

On January 29, 2015 the subsidiary Minera Latinoamericana S.A.C. agreed with the related party Inversiones Breca S.A., hereinafter "Breca", a shareholder agreement by which its set the Breca (minority shareholder of the subsidiary Inversiones Cordillera del Sur I Ltda.) hereinafter "Cordillera", group engaged into the production and sale of cement in Chile, will control all relevant activities of Cordillera from 2015. Consequently, according to IFRS10 "Consolidated financial statements", the Company will stop controlling and consolidating the financial information of Cordillera from 2015.

The accounting effects of the loss of control are presented below:

Consolidated statements of financial position -

	As of December 31, 2014 US\$(000)
Total de assets reported	3,247,800
Effect of loss of control in subsidiary	<u>(398,470)</u>
Proforma total asset modified	2,849,330
Total liabilities reported	1,298,134
Effect of loss of control in subsidiary	<u>(300,945)</u>
Proforma total liabilities modified	<u>997,189</u>
Total equity attributable to Principal reported Shareholder	1,678,176
Effect of loss of control in subsidiary	<u>-</u>
Proforma total equity net modified	<u>1,678,176</u>

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Consolidated statements of income –

	For the specific quarter from January 1 to March 31, 2014
	US\$(000)
Net income attributable to Shareholders of the Principal, reported	51,918
Effect of loss of control in subsidiary	-
Proforma net income attributable to Shareholders of the Principal, modified	51,918
Earnings per share (Common shares) -	
Earnings per share reported (in US dollars)	1.800
Effect per loss of control in subsidiary	-
Proforma net income per modified action (in US dollars)	1.800
Earnings per share (Investment shares) -	
Earnings per share reported (in US dollars)	0.018
Effect per loss of control in subsidiary	-
Proforma net income per modified action (in US dollars)	0.018

Consolidated statement of cash flows –

	For the specific quarter from January 1 to March 31, 2014		
	Reported 2014	Effects of loss of control in subsidiary	Proforma modified 2014
	US\$(000)	US\$(000)	US\$(000)
Net cash flows provided by operating activities	22,346	10,581	11,765
Net cash flows used in investing activities	(16,681)	(5,343)	(11,338)
Net cash flows provided by financing activities	244,930	(5,993)	250,923
Net increase in cash and cash equivalents	250,595	(755)	251,350
Exchange difference	(2,600)	(712)	(1,888)
Cash and cash equivalents at beginning of year	238,588	17,262	221,326
Cash and cash equivalents at end of year	486,583	15,795	470,788

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3. Cash and cash equivalents

(a) This caption was made up as follows:

	As of March 31, 2015	As of December 31, 2014
	US\$(000)	US\$(000)
Cash on hand and petty cash	33	98
Cash demand deposits	4,631	4,122
Overnight deposits	283,802	305,176
Term deposits	88,450	93,429
Certificates of bank deposits	89	5,000
Funds subject to restriction	59	57
	<u>377,064</u>	<u>407,882</u>

4. Trade and other receivables, net

(a) This caption was made up as follows:

	As of March 31, 2015	As of December 31, 2014
	US\$(000)	US\$(000)
Trade	<u>63,795</u>	<u>58,406</u>
Other receivables:		
Value added tax credit and other tax credits	56,539	61,890
Judicial deposits	6,997	14,408
Financial leases to third parties	226	466
Other	12,630	5,014
	<u>76,392</u>	<u>81,778</u>
	<u>140,187</u>	<u>140,184</u>
By maturity:		
Current portion	97,165	89,177
Non-current portion	43,022	51,007
	<u>140,187</u>	<u>140,184</u>

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5. Inventories, net

(a) This caption is made up as follows:

	As of March 31, 2015	As of December 31, 2014
	US\$(000)	US\$(000)
Finished products	18,699	35,680
Work in progress	51,465	43,957
Materials and supplies	40,011	46,132
Inventory in transit	515	2,048
	<u>110,690</u>	<u>127,817</u>
Estimation for obsolescence	<u>(273)</u>	<u>(7,945)</u>
	<u>110,417</u>	<u>119,872</u>

6. Other financial assets

(a) This caption is made up as follows:

	As of March 31, 2015	As of December 31, 2014
	US\$(000)	US\$(000)
Financial assets at fair value		
Bilbao Viscaya Argentaria	<u>8,587</u>	<u>8,155</u>
	<u>8,587</u>	<u>8,155</u>
Available-for-sale financial investments		
Blackrock IG	125,635	124,546
Banbogotá	<u>65,563</u>	<u>65,030</u>
	<u>191,198</u>	<u>189,576</u>

b) Movement of the period

	Financial assets at fair value	Available-for- sale financial investments
	US\$(000)	US\$(000)
Opening balance	8,155	189,576
Accrued interest	-	360
Fair value registered in other comprehensive income	<u>432</u>	<u>1,262</u>
Ending balance	<u>8,587</u>	<u>191,198</u>

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7. Investments in associates

(a) This caption is made up as follows:

	Interest in equity		Investments amount	
	As of March 31, 2015	As of December 31, 2014	As of March 31, 2015	As of December 31, 2014
	%	%	US\$(000)	US\$(000)
Associates				
Inversiones Cordillera del Sur Ltda	73.94	73.94	257,467	266,178
Rímac Seguros y Reaseguros	14.51	14.51	59,927	62,902
Servicios Aeronáuticos Unidos S.A.C.	47.50	47.50	4,443	4,078
Explosivos S.A.	7.30	7.30	6,678	7,340
Futura Consorcio Inmobiliario S.A.	4.96	4.96	4,938	5,097
			333,453	345,595

The Group has recognized its investments in Inversiones Cordillera del Sur (as explained in Note 2.3), Rímac Seguros y Reaseguros, Explosivos S.A. and Futura Consorcio Inmobiliario S.A., as investments in associates, considering that together with Inversiones Breca (Parent company), has the ability to exercise significant influence over the Board of Directors of such companies, which are managed as part of an economic group.

8. Property, plant and equipment, net

(a) This caption is made up as follows:

	Opening Balance 1.1.2015	Additions	Retires	Transfers and adjustments	Translation Adjustment	Ending Balance 31.03.2015
	US\$(000)	US\$(000)	US\$(000)	US\$(000)	US\$(000)	US\$(000)
Cost						
Land	13,710	14	-	-	(279)	13,445
Buildings and installations	428,850	8	-	3,147	(15,400)	416,605
Machinery and equipment	365,745	1,228	(1,796)	(8,806)	(20,776)	335,595
Furniture and fixtures and computer equipment	11,478	11	(7)	107	(678)	10,911
Vehicles	14,861	309	(154)	8	(1,630)	13,394
Units in transit	846	-	-	(846)	-	-
Work in progress	59,374	6,085	-	(4,383)	(8,751)	52,325
Mine closure costs	50,885	-	-	9,401	(462)	59,824
Financial leases	4,594	-	-	-	-	4,594
	950,343	7,655	(1,957)	(1,372)	(47,976)	906,693
Accumulated depreciation						
Buildings and installations	161,665	12,201	-	-	(2,754)	171,112
Machinery and equipment	236,924	6,786	(1,383)	-	(16,691)	225,636
Furniture and fixtures and computer equipment	6,999	282	(7)	-	(462)	6,812
Vehicles	8,999	372	(153)	-	(963)	8,255
Mine closure costs	24,208	1,658	-	-	4,545	30,411
Financial leases	1,139	180	-	-	-	1,319
	439,934	21,479	(1,543)	-	(16,325)	443,545
Net Cost	510,409					463,148

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9. Intangibles assets, net

(a) This caption is made up as follows:

	Balance at 01.01.2015 US\$(000)	Additions US\$(000)	Retires US\$(000)	Adjustments and transfers US\$(000)	Translation adjustment US\$(000)	Balance at 03.31.2015 US\$(000)
Cost:						
Indefinite useful life						
Goodwill	53,711	-	-	-	(9,016)	44,695
	126,098	-	-	-	-	126,098
	179,809	-	-	-	(9,016)	170,793
Definite useful life						
Mining concessions	855,731	-	-	(307)	(23,503)	831,921
Mine development costs	30,257	-	-	-	-	30,257
Licenses	390	8	(5)	(3)	(60)	330
Usufruct of lands	8,419	145	-	31	(92)	8,503
Others	545	-	-	-	-	545
	895,342	153	(5)	(279)	(23,655)	871,556
Accumulated amortization:						
Mining concessions	9,044	1,041	-	(284)	(1,323)	8,478
Mine development costs	8,141	1,214	-	-	-	9,355
Licenses	380	6	-	(26)	(58)	302
Usufruct of lands	1,808	184	-	-	(16)	1,976
Others	9	14	-	-	-	23
	19,382	2,459	-	(310)	(1,397)	20,134
Net Cost	1,055,769					1,022,215

10. Impairment of long-lived assets

The Company's impairment test for goodwill and intangible assets with indefinite lives is based on value –in-use calculations. The key assumptions used to determine the recoverable amount for the difference cash generating units were disclosed in the annual consolidated financial statements for the year ended December 31, 2013. The Management has evaluated the recoverable value of long-lived assets and has not identified an impairment loss of value for these assets at March 31, 2015.

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11. Financial obligations

(a) This caption is made up as follows:

	Guarantees	Interest rate	As of March 31, 2015 US\$(000)	As of December 31, 2014 US\$(000)
Corporate bonds, net of issuance costs	No guarantees	6.25%	442,405	449,118
Banco Itaú	Include guarantees	4.83%	37,852	36,131
Banco ABC Brasil	No guarantees	4.87%	13,028	12,782
Banco Santander	No guarantees	3.33%	8,918	7,551
Banco Safra	No guarantees	0.81%	3,014	-
Banco do Brasil	No guarantees	2.43% - 0.81%	3,449	-
Banco do Brasil	No guarantees	2.43% - 0.81%	2,205	5,638
Banco Santos	No guarantees	Tasa CDI + 2%	4,656	5,595
Banco Bic Banco	No guarantees	6.38%	-	2,054
Banco Safra	No guarantees	4.11%	142	2,005
FINAME BNDES (Banco Itaú)	Leased assets	10.46% - 6%	699	1,289
BBVA Continental	Leased assets	2.68%	695	1,029
Banco Santander	Leased assets		330	-
Banco de Crédito del Perú	Leased assets	4.54%	253	314
			<u>517,646</u>	<u>523,506</u>
Banco Santos (interests)			10,211	11,785
			<u>527,857</u>	<u>535,291</u>
By maturity:				
Current portion			74,157	68,440
Non-current portion			453,700	466,851
			<u>527,857</u>	<u>535,291</u>

The General Shareholders' Meeting held on January 30, 2014, agreed that the Company makes an international bond issue ("Senior Notes") through a private placement, issue under Rule 144A and Regulation S of the U.S. Securities Act of 1933. Also, agreed to list these securities in the Luxembourg Stock Exchange. On January 31, 2014, the Company issued bonds, with a face value of US\$450,000,000, with maturity on February 7, 2024 and with a coupon interest rate of 6.25%, obtaining net proceeds of US\$441,823,500.

The bonds restrict the ability of Minsur and its Subsidiaries to enter into certain transactions, however, these covenants do not require Minsur to comply with financial ratios or maintain specific levels of net worth or liquidity.

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12. Provisions

(a) This caption is made up as follows:

	As of March 31, 2015	As of December 31, 2014
	AI 31.03.2015	AI 31.12.2014
	US\$(000)	US\$(000)
Provision for mine closure	86,717	93,007
Provision for environmental remediation	33,535	35,079
Provision for bonuses for performance	5,103	10,071
Other contingencies	1,671	5,246
	<u>127,026</u>	<u>143,403</u>
By maturity:		
Current portion	16,734	20,404
Non-current portion	110,292	122,999
	<u>127,026</u>	<u>143,403</u>

13. Income tax

The expense for income tax consists on the following:

	As of March 31, 2015	As of March 31, 2014
	US\$(000)	US\$(000)
Income Tax:		
Current	14,350	32,279
Deferred	1,117	(5,613)
	<u>15,467</u>	<u>26,666</u>
Mining royalty and Special Mining Tax:		
Current	3,626	9,761
Deferred	195	(126)
	<u>3,821</u>	<u>9,635</u>
Total	<u>19,288</u>	<u>36,301</u>

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14. Net Sales

Sales for the quarter ended March 31 include:

	2015	2014
	US\$(000)	US\$(000)
Tin and other minerals	129,370	204,333
Gold	28,384	32,828
Niobium, tantalum and others	13,587	7,744
	<u>171,341</u>	<u>244,905</u>
Embedded derivative for sales of tin	(1,094)	(378)
	<u>170,247</u>	<u>244,527</u>

15. Cost of sales

The cost of sales for the quarter ended March 31 includes:

	2015	2014
	US\$(000)	US\$(000)
Opening finished product inventory	35,680	58,342
Opening product in process inventory	43,957	76,645
Services rendered by third parties	21,717	27,630
Depreciation y amortization	22,396	18,669
Consumption of miscellaneous supplies	19,628	21,387
Wages and salaries	20,703	25,575
Electricity	3,063	2,690
Other manufacturing expenses	7,328	2,091
Final finished product inventory	(18,699)	(43,202)
Final work in process inventory	(51,465)	(71,146)
	<u>104,308</u>	<u>118,681</u>

16. Selling expenses

The selling expenses for the quarter ended March 31 includes:

	2015	2014
	US\$(000)	US\$(000)
Personnel expenses	264	222
Services rendered by third parties	1,554	1,743
Other management charges and provisions	319	177
Depreciation and amortization	2	2
	<u>2,139</u>	<u>2,144</u>

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17. Administrative expenses

The administrative expenses for the quarter ended March 31 includes:

	2015	2014
	US\$(000)	US\$(000)
Personnel expenses	7,635	7,528
Services rendered by third parties	2,557	3,989
Other management charges and provisions	643	907
Depreciation	166	165
Others	-	2
	<u>11,001</u>	<u>12,591</u>

18. Exploration and project expenses

The administrative expenses for the quarter ended March 31 includes:

	2015	2014
	\$(000)	\$(000)
Personnel expenses	2,470	1,530
Services rendered by third parties (*)	8,813	16,068
Other management charges and provisions	201	435
Depreciation	483	70
	<u>11,967</u>	<u>18,103</u>

(*) Its mainly corresponds to work of diamond drilling and related services performed by Marcobre and Barbastro subsidiaries and other projects.

19. Equity

(a) Capital stock -

As of March 31, 2015 and December 31, 2014, the authorized, subscribed and paid capital stock in accordance with the Company's by-laws and amendments, is represented by 19,220,015 common shares with a nominal value of S/.100.00 each one.

(b) Investment shares -

As of March 31, 2015 and December 31, 2014, this caption is made up of 960,999,163 investment shares, with a nominal value of S/.1 each one.

According to the current legislation, the investment shares grant the holders the right to participate in the dividend distribution, make contributions to maintain its share in the case of capital increases as a result of additional contributions, increase the investment shares account due to the capitalization of equity accounts, redemption of shares and participation in the distribution of the equity in case of dissolution. The investment

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shares do not grant access to the Board of Directors or to the Shareholders' meetings. The investment shares of the Company are listed on the Lima Stock Exchange (BVL).

The quotation of these shares as of March 31, 2015 was S/.1.29 per share and its frequency of negotiation was 96.77 percent (S/.1.80 per share as of December 31, 2014 with a frequency of negotiation of 95.24 percent).

(c) Cumulative translation reserve -

As of March 31, 2015 and December 31, 2014, this caption mainly comprises exchange differences resulting from the translation of the financial statements of the foreign subsidiaries, prepared in their functional currency, into the functional currency of the Group. It also includes unrealized investment in related companies.

(d) Contribution of non-controlling interests -

As of March 31, 2015, the Group received contributions of non-controlling interests of the subsidiary Marcobre S.A.C. for an amount of US\$ 1,770,000 (US \$5,940,000 as of March 31, 2014).

(e) Declared and paid dividends -

The following information on declared and paid dividends paid to shareholders for the periods ended March 31, 2015 and December 31, 2014:

	Date	Dividends declared	Dividends per common share	Dividends per investment share
		US\$(000)	US\$	US\$
As of March 31, 2015				
Shareholders' meeting	March 26, 2015	<u>50,000</u>	1.73	0.017
As of March 31, 2014				
Shareholders' meeting	March 19, 2014	<u>50,000</u>	1.73	0.017

20. Commitments and contingencies

a) Environmental Commitments -

The exploration and exploitation activities of the Company are subject to the rules of environmental disclosures in the separated at December 31, 2014 financial statements. There were no significant changes during the period ended March 31, 2015.

b) Contingencies -

The group has no additional significant contingencies other than those described in separated at December 31, 2014 financial statements.

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21. Earnings (loss) per share

The basic and diluted earnings per share are calculating dividing the net income for the year by the weighted average number of outstanding shares during the year.

The calculation of the earnings per share for the period ended March 31, is presented below:

	2015 \$(000)	2014 \$(000)
Profit attributable to common and investment shareholders	<u>(12,772)</u>	<u>51,918</u>
Denominator		
Common shares	19,220,015	19,220,015
Investment shares	960,999,163	960,999,163
(Loss) Earning per share (in US dollars)		
Profit attributable to common shareholders	(0.443)	1.800
Profit attributable to ivestement shareholders	(0.004)	0.018

22. Related parties transactions

The balances of receivables and payables with related entities as of March 31, 2015 and December 31, 2014 follow:

	As of March 31, 2015 US\$(000)	As of December 31, 2014 US\$(000)
Receivable -		
Administración de Empresas S.A.	122	294
Compañía Minera Raura S.A.	104	171
Otros	-	1
	<u>226</u>	<u>466</u>

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	As of March 31, 2015	As of December 31, 2014
	US\$(000)	US\$(000)
Payables -		
Administración de Empresas S.A.	4,214	7,454
Exsa S.A.	898	2,329
Rímac Seguros y Reaseguros	82	298
Clínica Internacional S.A.	319	519
Centria Servicios Administrativos S.A.	3	66
Rímac S.A. Entidad Prestadora de Salud	-	20
Estratégica S.A.C.	7	80
Urbanizadora Jardín S.A.	60	184
Protección Personal S.A.C.	19	90
Compañía Minera Raura S.A.	7	10
Inversiones Nacionales de Turismo S.A.	29	31
Corporación Peruana de Productos Químicos	1	15
Otros	-	5
	<u>5,639</u>	<u>11,101</u>

23. Segment Information

Management has determined the operating segments of the Group on the basis of the reports used for decision making. Management considers business units based on their products, activities and geographical location:

- Production and marketing of tin extracted from Peru.
- Production and marketing of tin extracted from Brazil.
- Production and marketing of gold extracted from Peru
- Other mining exploration activities in Peru and Chile.

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(a) The following present's information on revenue and operating profit of the operating segments of the Group for the period ended March 31, 2015 and December 31, 2014:

For the Three-month ended March 31, 2015	Tin (Perú) US\$(000)	Gold (Perú) US\$(000)	Non allocable (Perú) US\$(000)	Total (Perú) US\$(000)	Tin (Brazil) US\$(000)	Mining exploration (Perú) US\$(000)	Sub Total Consolidated US\$(000)	Adjustments and eliminations US\$(000)	Total Consolidated US\$(000)
Net Sales									
Income from external customers	105,157	28,384		133,541	36,706	-	170,247	-	170,247
Between segments	-	-			-	-	-	-	-
Total Net sales	105,157	28,384	-	133,541	36,706	-	170,247	-	170,247
Cost of sales	(57,606)	(15,727)	-	(73,333)	(33,719)	-	(107,052)	2,744	(104,308)
Gross profit	47,551	12,657	-	60,208	2,987	-	63,195	2,744	65,939
Operating expenses									
Administrative expenses	-	-	(7,715)	(7,715)	(2,580)	(894)	(11,189)	188	(11,001)
Selling expenses	(1,677)	(5)	-	(1,682)	(457)	-	(2,139)	-	(2,139)
Exploration and project expenses	-	-	(4,559)	(4,559)	-	(7,408)	(11,967)	-	(11,967)
Other, net	-	-	(1,720)	(1,720)	(1,077)	25	(2,772)	(188)	(2,960)
Total operating expenses	(1,677)	(5)	(13,994)	(15,676)	(4,114)	(8,277)	(28,067)	-	(28,067)
Operating income	45,874	12,652	(13,994)	44,532	(1,127)	(8,277)	35,128	2,744	37,872
Depreciation and amortization (included in cost of sales and expenses)	(6,858)	(10,916)	(214)	(17,988)	(5,604)	(346)	(23,938)	-	(23,938)
For the Three-month ended March 31, 2014									
Net Sales									
Income from external customers	185,196	32,828	-	218,024	28,605	-	246,629	(2,102)	244,527
Between segments	-	-	-		-	-	-	-	-
Total Net sales	185,196	32,828	-	218,024	28,605	-	246,629	(2,102)	244,527
Cost of sales	(74,965)	(17,461)	-	(92,426)	(27,450)	-	(119,876)	1,195	(118,681)
Gross profit	110,231	15,367	-	125,598	1,155	-	126,753	(907)	125,846
Operating expenses									
Administrative expenses	-	-	(7,625)	(7,625)	(3,975)	(1,141)	(12,741)	150	(12,591)
Selling expenses	(1,929)	(1)	-	(1,930)	(214)	-	(2,144)	-	(2,144)
Exploration and project expenses	-	-	(2,464)	(2,464)	(178)	(15,461)	(18,103)	-	(18,103)
Other, net	-	-	(1,595)	(1,595)	(1,304)	(22)	(2,921)	(675)	(3,596)
Total operating expenses	(1,929)	(1)	(11,684)	(13,614)	(5,671)	(16,624)	(35,909)	(525)	(36,434)
Operating income	108,302	15,366	(11,684)	111,984	(4,516)	(16,624)	90,844	(1,432)	89,412
Depreciation and amortization (included in cost of sales and expenses)	(5,687)	(6,354)	(171)	(12,212)	(6,730)	(279)	(19,221)	-	(19,221)